No. 3026

United States Circuit Court of Appeals

For the Ninth Circuit

RELIANCE CONSTRUCTION COMPANY, a corporation; CITY OF HOOD RIVER, a municipal corporation, and NATIONAL SURETY COMPANY, a corporation,

Appellants,

vs.

HASSAM PAVING COMPANY, a corporation, and OREGON HASSAM PAVING COMPANY, a corporation,

Appellees.

BRIEF OF APPELLANT NATIONAL SURETY COMPANY

On Appeal from the District Court of the United States for the District of Oregon.

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CAREY & KERR
Counsel for Appellees

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On Appeal from the District Court of the United States for the District of Oregon.

STATEMENT OF THE CASE.

This is an appeal by the appellant National Surety Company from decree of lower court granting motion of appellees to confirm report of Master in Chancery and overruling exceptions to

said report by appellant Reliance Construction Company upon an accounting for infringing the patent for laying Hassam pavement in City of Hood River and decreeing that the appellees have and recover of and from the appellants and each of them the sum of forty-five hundred twenty-seven and 73/100 dollars ($4527.73) damages as aforesaid, together with their costs and disbursements to be taxed.

See Transcript, pages 126-127.

The validity of appellees' patents were adjudicated, the infringement by appellant was adjudicated, the order for appellants to account to appellees was made, and the reference to master was made; a perpetual injunction was granted, in the decree of April 27, 1914, rendered in this suit, and these matters are all *res judicata* and were not and could not be questioned on this accounting.

See Transcript, pages 68, 69, 70, 71, 72.

There was an order entered in this suit that the appeal from decree of April 27, 1914, entered in this suit was withdrawn and that Master in Chancery proceed with the reference in accordance with the terms of the said decree made in this suit on March 27, 1916.

See Transcript, pages 95, 96, 97.

Hall & Stearns, attorneys for defendants, then withdrew as attorneys for defendants.

Thus the only issue open was the proper accounting.

There was a master's summons issued in this suit and served upon appellant Reliance Construction Company and appellant National Surety Company.

See Transcript, pages 97, 98, 99, 100, 101, 102, 103, 104.

Appellant Reliance Construction Company appeared by Ralph R. Duniway, its solicitor, before the master on May 3, 1916, and on May 9, 1916, it filed an account of its profits on said infringement in sum of $1900.34.

See Transcript, pages 164, 165, 166, 167, 168, 169, 170, 171, 172.

Appellant National Surety Company appeared by Mr. Harrison Allen, its solicitor, before the master on May 3, 1916; the hearing was postponed to May 9, 1916, and said appellant National Surety Company did not appear further in any way until it appealed from the decree of the lower court against it for $4527.73 damages.

See Transcript, page 166.

Appellant City of Hood River was not mentioned in, or served with master's summons, and did not appear in any way in the proceedings for an accounting until it appealed from the decree of the lower court against it for $4527.73 damages.

The hearing was had before the master on the

account filed by the appellant Reliance Construction Company of its profits on the infringement and the objections filed thereto by the appellees, and on the plaintiffs' statement of damages and the objections thereto by appellees, and the evidence was taken before the master for the purpose of computing what recovery should be allowed. The profits of defendant Reliance Construction Company on the work done by it, which had been adjudged by the court to be an infringement of the patents owned and controlled by the plaintiffs, were ascertained and said hearing was also directed to the ascertainment of the damages sustained by plaintiffs.

The master on August 18, 1916, filed findings of fact and his reasons for the findings of fact in which the master stated that the hearing was for the purpose of computing the profits of the defendant Reliance Construction Company in the work done by it which has been adjudged by the court to be an infringement of the patent owned and controlled by plaintiffs, said hearing being also directed to the ascertainment of the damages sustained by plaintiffs.

The master found that the profits of appellant Reliance Construction Company in performing the work were $2362.40.

The master found that the damages of plaintiffs from the infringement referred to in Finding I were and are the sum of $4527.73.

The master made no finding against appellant National Surety Company or appellant City of Hood River.

See Transcript, pages 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117.

Appellant Reliance Construction Company filed two exceptions to the master's report, as follows:

First Exception.

The defendant Reliance Construction Company excepts to that part of the master's report, paragraph IV, which sur-charges the account of defendant's profits $300 as excessive overhead or general expense, and said defendant respectfully moves the court to hold that the entire credit under this head claimed by said defendant of $604.82 is the correct amount of overhead expense to be charged in this accounting, and that defendant's total profits on this contract was $2,062.40 and no more.

Second Exception.

Defendant Reliance Construction Company excepts to that part of the master's report, paragraphs VII and VIII whereby the master finds that twenty-five cents a square yard would be a reasonable royalty for the use of the Hassam pavement, and that plaintiff recover damages and that the damages of plaintiff on the infringement, referred to in Finding I of the master's report were and are the sum of $4,527.73.

Defendant respectfully moves the court to hold

that plaintiff in this case is only entitled to recover the profits which defendant Reliance Construction Company made upon the contract which infringed the patents of plaintiff, and that such profits of defendant are $2,062.40 and no more, and that in this case plaintiff has not suffered any damages by the infringement and is not entitled to recover any royalty for the infringement other than beyond the profits made under the contract by defendant, which are $2,062.40 and no more.

See Transcript, pages 118-119.

Complainants filed a motion for confirmation of master's report and entry of final decree and allowance of treble the amount of damages reported by master, as follows:

Now comes the complainants and move for confirmation of the report of the master and entry of final decree in the above entitled suit, and that the complainants be allowed treble the amount of damages ascertained and reported by the Master in Chancery in his report.

As a basis for the application for allowance of treble damages, complainants rely upon the records and files of this suit and the report of the Master in Chancery, particularly upon the fact that the defendants took the municipal contract for laying pavement in the City of Hood River with Hassam pavement, infringing the patents referred to in the complaint and decree, after having been repeatedly

warned and notified by the complainants that they would be held for infringement and after having been offered a license by the complainants and which defendants neglected to accept.

See Transcript, pages 119-120.

The exceptions of appellant Reliance Construction Company and the motion to confirm the report of master and for treble damages, were heard, and were disposed of by the lower court on February 3, 1917, decreeing that the complainants have and recover of and from the said defendants and each of them the sum of forty-five hundred twenty-seven and 73/100 dollars ($4,527.73) damages as aforesaid, together with their costs and disbursements to be taxed.

See Transcript, pages 121, 122, 123, 124, 125, 126, 127.

Appellant Reliance Construction Company filed petition for rehearing on February 3, 1917.

See Transcript, pages 128, 129, 130, 131, 132, 133, 134, 135, 136.

Order was entered denying petition for rehearing and an opinion given denying rehearing.

See Transcript, pages 136, 137, 138, 139, 140, 141, 142.

Each of the three defendants have perfected separate appeals to this court.

See Transcript, pages 143 to 163.

Specification in What the Decree Is Alleged to Be Erroneous by Appellant National Surety Company.

First: Because said decree orders and decrees that complainants have and recover of and from said defendants and each of them, the sum of $4,527.73 damages as aforesaid, together with their costs and disbursements to be taxed, thereby entering a decree against the defendant, National Surety Company, a corporation, for $4,527.73 damages together with plaintiffs' costs and disbursements to be taxed, when said National Surety Company was not required to file any statement of what it had done, nor was there any evidence of any kind introduced against the National Surety Company, nor any claims made against the National Surety Company before the Master in Chancery that it had damaged the complainants or made any profits, and the Master in chancery did not make any findings of fact or conclusions of law or report against the National Surety Company in any amount, and there is neither allegation nor evidence to support said decree against the National Surety Company in any amount, nor was the National Surety Company given any hearing before the District Court before it was cast in judgment.

Second: Because said National Surety Company has not damaged the complainants in any way.

Appellant National Surety Company upon this

appeal respectfully contends for a decree reversing decree of the lower court in regard to National Surety Company, and for a decree for costs and disbursements on this appeal for National Surety Company.

POINTS AND AUTHORITIES.

I.

National Surety Company made no profits on the infringement of the appellees' patents and had nothing to account for under the decree, and appellees made no claims for an accounting from National Surety Company before master, and no evidence given against National Surety Company, and master made no findings against National Surety Company.

See Transcript, page 184.

II.

There was no jurisdiction in equity to assess damages against the National Surety Company.

Appellees have a plain, speedy and adequate remedy at law in an action for damages against the National Surety Company, and equity has not jurisdiction.

Root v. R. R. Co., 105 U. S. on 203.

III.

There is a difference between the measure of damages in an action at law for infringing a pat-

ent and the measure of damages in a suit in equity for infringing a patent.

Coupe v. Royer, 155 U. S. 565, 582, 583; s. c. 39 Law. Ed. 263 on 269, 270.

IV.

The cases cited in the opinion of the lower court in discussing the liability of National Surety Company are against contributing infringers and do not discuss the measure of liability.

This accounting in equity ought not to be changed into an action at law against the National Surety Company as a contributing infringer and the National Surety Company be given no chance to defend.

Root v. Railway Co., 105 U. S. 189; s. c. 26 Law. Ed. 975.

V.

The National Surety Company is not a contributory infringer. The National Surety Company did not intentionally aid the Reliance Construction Company in the unlawful making and selling of patented Hassam pavement.

T. I. & E. Co. v. K. E. Ry. L. Co., 72 Fed. Rep. 1016, 1017.

N. Y. Scaffolding Co. v. Whitney, 224 Fed. Rep. 452, 459.

Henry v. Dick, 224 U. S. 1, 32, 33, 34.

VI.

Writing surety bonds is a lawful business.

There is nothing wrong or illegal in Reliance Construction Company bidding on the improvement of streets in Hood River under the belief that Hassam was an unpatented and non-patentable concrete pavement.

There was nothing wrong or illegal for National Surety Company to sign the bond that Reliance Construction Company would perform its contract and the bond indemnifying the City of Hood River against claims of appellees under the patents, whose validity had never been adjudicated.

That is not intentionally aiding the Reliance Construction Company in the unlawful making and selling of patented Hassam pavement.

VII.

There should be no decree for damages in this case against the National Surety Company because it gave an indemnity bond to City of Hood River.

No one has cause of action on the indemnity bond but the City of Hood River, who must first suffer damages.

16 Ency. Law (2 ed.), page 176, 178, 181.

VIII.

There was no proof offered that National Surety Company had damaged appellees and decree against

National Surety Company should be reversed on this ground.

Ransom v. New York, 23 How. (U. S.), 487, 489, 491.

IX.

There was no common participation between appellants and there can be no joint decree for damages for the infringement. Decree should be reversed on this ground.

Vrooman v. Penhollow, 222 Fed. Rep. 894, on 895.

See Transcript, page 184.

ARGUMENT.

The National Surety Company was not a proper party to the suit for an injunction, but it was served with process, made a joint answer and joint defense to the injunction suit with Hall & Stearns as the joint counsel of all the defendants to this injunction suit..

Hall & Stearns were allowed to withdraw as counsel for defendants when the decree in the injunction suit became final.

Then appellees had a master's summons issued and served upon Reliance Construction Company and National Surety Company.

This appellant respectfully calls the attention of the court to the fact that the record shows that there is no testimony introduced, nor any finding

by the master, that defendant National Surety Company has received, or made, or which have arisen or accrued to them, or either of them, any profits or gains or advantages by the manufacture or use or sale of said pavements and artificial structures in violation of said letters patent, or that the complainants have suffered damages resulting from said infringement by said defendant; and the court has overlooked that in the decree it was ordered and adjudged as follows:

"And it is further Ordered, Adjudged and Decreed that the complainants do recover of the defendants the profits, gains and advantages which the said defendants have received or made or which have arisen or accrued to them, or either of them, by the manufacture, use or sale of the said pavements and artificial structures in violation of the said letters patent since the 1st day of May, 1913, and that the complainants do recover the damages resulting from said infringements."

Also the court has overlooked that the master, by the decree in this case, was directed as follows:

"To ascertain, take and state, and report to the court, an account of the number of pavements and structures embodying the said inventions and improvements and each thereof, described and secured in the said letters patent, made, used or sold by the said defendants, and also the gains, profits and advantages which the said defendants have received or which have arisen or occurred to

them or either of them since the 1st day of May, 1913, from infringing the said exclusive rights of the said complainants by the manufacture, use or sale of the said inventions and improvements in the said letters patent, and the damages which the complainants have suffered by said infringements."

Also the court has overlooked that the master, in making his report, limited his findings of fact in accordance with the evidence to the Reliance Construction Company.

Also the court has overlooked that before any finding or decree could be rendered against either the City of Hood River, a municipal corporation, or the National Surety Company, a corporation, upon the bond executed by it to indemnify the City of Hood River against any damages by reason of the infringement of any patents, that an action must be brought against the City of Hood River, a municipal corporation, or the National Surety Company, a corporation, or against both of them, upon said indemnity bond, and that the court was without jurisdiction or power to render a decree in this case against the defendant National Surety Company, a corporation, when it is established by the evidence that said defendant has not received or made any profits or gains or advantages by the manufacture, use of, or sale of said pavements and artificial structures in violation of said letters patent since the 1st day of May, 1913; and also it ap-

pears that there has not arisen or accrued to said defendant, the National Surety Company, a corporation, any profits or gains or advantages by the manufacture or use or sale of said pavements and artificial structures in violation of said letters patent.

This defendant respectfully shows that to render any such decree for any amount against the defendant, National Surety Company, a corporation, is to render a decree without any evidence or law to support it in any way, shape, manner or form. The National Surety Company ought to be allowed to defend an action and be heard on the measure of damages and amount of recovery before any recovery is permitted against said defendant because of the facts.

After the final decree for damages National Surety Company arranged for counsel to appeal from said decree for damages to the court of appeals. Thus the decree of the lower court condemns the National Surety Company unheard and the lower court had no jurisdiction to enter decree for damages against the National Surety Company and the decree of lower court deprives the National Surety Company of its property without due process of law.

See cases cited under Points and Authorities.

Thus the decree should be reversed with costs to the National Surety Company upon this ground.

Said appellant merely contends that there was

no accounting before master by National Surety Company, no evidence upon which report could be made against National Surety Company, and master made no finding against National Surety Company.

On motion to confirm report of master, no decree should be rendered against National Surety Company.

National Surety Company was not before the lower court on hearing of motion to confirm report of master.

National Surety Company must have trial and given due process of law before decree can be rendered against it.

National Surety Company did not make any profits and cannot account for profits.

Whether National Surety Company is liable for any damages in an action at law is not before the court in this equity case.

There was unquestionably no proof offered that National Surety Company had damaged appellees and decree against National Surety Company should be reversed on this ground.

Ransom v. New York, 23 Howard (U. S.), 487, 489, 491.

The writing of bonds by a surety company is a lawful business or enterprise.

That National Surety Company ought only to be

sued at law for any damages which the plaintiff can establish by proof is shown by

Root v. Railway Co., 105 U. S. on 203, referring to *Elizabeth v. Pavement Co.,* 97 U. S. 126; s. c. 24 Law. Ed. 1000 on 1006.

The cases cited by the court in its opinion in discussing the liability of National Surety Company are for contributory infringements and do not discuss the measure of damages.

This case ought not to be changed into an action at law against the National Surety Company as a contributory infringer and the National Surety Company be given no chance to defend.

Action for damages for contributory infringer ought to be on the law side of the court and there ought to be a complaint upon that ground for damages.

Root v. Railway Co., 105 U. S. on 203.

Elizabeth v. Pavement Co., 97 U. S. 126.

The National Surety Company is not a contributory infringer. The National Surety Company did not intentionally aid the Reliance Construction Company in the unlawful making and selling of patented Hassam pavement.

T. H. E. Co. v. K. E. Rys. Co., 72 Fed. Rep. 1016, 1017.

N. Y. Scaffolding Co. v. Whitney, 224 Fed. Rep. 452, 459.

Henry v. Dick, 224 U. S. 1, 32, 33, 34.

There was no proof offered that National Surety Company had damaged appellees and decree should be reversed on this ground.

Ransom v. New York, 23 Howard (U. S.), 487, 489, 491.

There was no common participation between appellants and there can be no joint decree for damages for the infringement. Decree should be reversed on this ground.

Vrooman v. Penhollow, 222 Fed. Rep. 894 on 895.

The decree should be reversed for the appellees have not been damaged. This appellant respectfully refers the court to the brief of appellant Reliance Construction Company for an argument on this phase of the case.

This appellant respectfully refers the court to the brief of appellant, Reliance Construction Company, for other arguments why this decree should be reversed.

The lower court in its opinion discussing the holding of National Surety Company liable for damages, attempts to justify its decree by stating that under any other holding the protection afforded by the patent law to inventors would be a poor sham, for it would be possible for a city to practically destroy the patent protection by awarding contracts to irresponsible or impecunious corporations or individuals.

This reasoning seems to appellant National Surety Company very illogical when given as a reason for holding the National Surety Company as a joint tort feasor, instead of giving effect to the law governing bonds and indemnity contracts.

The Reliance Construction Company is solvent.

The Reliance Construction Company gave a good bond, guaranteeing that it would complete the contract and pay its bills.

See Transcript, pages 212-214.

The Reliance Construction Company gave a bond with the appellant National Surety Company indemnifying City of Hood River as provided in the bond.

See Transcript, page 215-216.

Thus these acts ought to show that no action was taken in this case by appellants to deprive the appellees of anything by means of financial irresponsibility or fraud.

These bonds ought to be given the usual liability attaching to bonds.

Appellants ask attention to what would be the unreasonable effect upon business and how business would be injuriously affected if the decision of the lower court is upheld, and what a club for extortion would be put in the hands of patentees, even those whose patents have never been adjudicated to be valid patents, by upholding the decision of lower courts.

Patents are granted on *ex parte* application of the party wishing to get a patent, and who can hire a patent attorney to assist him get a patent.

There are large numbers of attorneys in the business of getting a patent on almost anything for a comparatively small charge.

I understand many patent attorneys will guarantee to get a patent on almost anything or charge no fee.

There is no trial or particular effort by the United States Government to guard against granting patents which are not valid, or against granting patents for things that are not justly patentable.

It is very common for patents to be declared by the courts not to be valid.

A patent is only prima facie evidence of validity of patent.

The statutes expressly provide for contesting patents in defense of infringement suits.

Under the decision of the lower court any one who has been granted a patent can notify other people that he has a patent and that he claims it is being violated, and that patentee demands certain terms for what he claims is the use of his patent, and that if said patentee's claims are not paid or the other people do not discontinue what they think they have a right to do and patentee says is an infringement of his patent, the patentee will file suit to establish the validity of his patent and

for an injunction and an accounting, and do unto the defendants in those future suits what appellees have done to appellants in this suit.

That will be a warning of a serious nature.

The patentee will apply for no preliminary injunction or become liable for any great expense.

The patentee will just speculate on a law suit, and with little to lose and much to gain, just as appellees did in this suit.

This suit will be cited to show what a patentee of an unadjudicated patent can do to an infringer whose patent is adjudged to be good after a contest, and the surety who signed bonds running to the purchasers not running to the patentee.

Apply this decision of lower court to patents on pavements. There are a number of patented pavements, the validity of the patents have not been adjudicated.

Under this decision there will be more patents obtained on pavements.

There is widespread belief among contractors and engineers and highway boards that a number of these patented pavements, which patents have not been adjudicated, are invalid, because such pavements have been laid for years and are not subject to be patented.

In this state, cities, counties and the state are spending and preparing to spend large sums of money for hard surface pavements.

Some one claims to have a patent on nearly every hard surface pavement that can be laid and nearly all pavement that is to be laid as unpatented hard surface pavement, some one claims it is an infringement on his unadjudicated patented pavement and the patentee either wants the lawful monopoly of laying that hard surface pavement at an enormous price or patentee wants an enormous royalty.

Under this decision, every one who believes that an unadjudicated patent for a hard surface pavement is invalid or is not being infringed by a hard surface pavement, is told that he backs his judgment and litigates the claims of the patentee at an enormous risk, while the patentee runs no appreciable risk of loss at all.

This decision of lower court unreversed will be a great expense and hinderance to the improving of our streets and roads.

Under this decision, every one who contracts for the pavement, or who signs a bond for the contractor, or does anything for the contractor in laying a pavement, if the patent should be adjudged to be valid and to be infringed are liable jointly and severally as joint tort feasors to the patentee for what the patentee says he lost because he did not get an enormous royalty or an enormous profit by laying the pavement at an enormous price!

This decision establishing the validity of patent for Hassam patent, will not result in promoting

the laying of Hassam patented pavement and the paying of royalty to the appellees.

It simply will require this appellant Reliance Construction Company to pay whatever sum this court of appeals adjudges that it should pay the appellees.

It will simply notify each city, county and state in the ninth circuit, that when they want to lay concrete pavement, advertise for and lay concrete pavement and don't call it Hassam.

It simply gives promoters a great big club to use for their own benefit in hampering the good roads movement, at the expense of the taxpayers.

It simply gives promoters of unadjudicated patents the power to say to surety companies that sureties go upon bonds for any one who resists and defends against the demands of the patentee of an unadjudicated patent at their peril and without knowing what amount of liability might be incurred, or whether surety on a bond will have an opportunity to defend against the attempted liability if the patent should happen to be held a good patent.

Such a decision ought to be reversed.

The appellant National Surety Company respectfully submits that the decree as to the National Surety Company on this accounting should be reversed, with costs to the National Surety Company.

Respectfully submitted,

RALPH R. DUNIWAY,

Of Counsel for National Surety Company.